

Glossary

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

A

Agencies

The agencies are cash distribution services operated by cantonal banks on behalf of the National Bank. These agencies are responsible for the issuance and redemption of cash at their place of business. ([The issuance and redemption](#)). The National Bank's network of cash distribution services comprises its three own bank offices and thirteen agencies.

Article IV Consultation

The [International Monetary Fund \(IMF\)](#) monitors a country's economic development on a regular basis (usually once a year) and assesses the impact of its policies on the exchange rate and the balance of payments. The assessment is carried out according to the provisions of article IV of the IMF Charter. IMF staff compile a report which is discussed in the [Executive Board](#). The Board's recommendations are passed on to the country in question. Publication of a summary of the discussion and the report is voluntary, but recommended to member states.

B

Balance of payments

The balance of payments comprises the cross-border exchange of goods and services, labour income and investment income as well as financial flows to and from other countries during a certain period. The development and the structure of the balance of payments provide information on a country's foreign trade and investment relations. The methodological basis of balance of payments statistics is the Balance of Payments Manual of the International Monetary Fund. The Swiss balance of payments may be divided into four sections: the [current account](#), the [capital transfer account](#), the [financial account](#) and [net foreign holdings of the National Bank](#). In the balance of payments, the statistical difference between the total of inflows (credit items: current account earnings and capital imports) and the total of outflows (debit items: current account expenditures and capital exports) is designated residual item (net errors and omissions). Balance of payments transactions are entered twice in the books so that arithmetically the balance of payments is balanced in principle. In practice, however, this basic rule cannot always be fully applied due to the diversity of external relations and statistical sources.

Bank for International Settlements (BIS)

The BIS was founded in 1930. It fosters international monetary and financial cooperation. The central bank chairmen of the BIS member countries meet regularly for an exchange of information. The BIS maintains the secretariat for various committees and groups of experts. As a bank for central banks, it manages the foreign exchange reserves of numerous countries and international financial institutions. Moreover, it grants bilateral monetary assistance loans and acts as counterparty for central banks in their financial transactions.

Banking Law

The aim of the Swiss Banking Law (Federal Law on Banks and Savings Banks) is to protect creditors and to strengthen the Swiss financial centre. It sets out rules on authorisation for the commencement of banking activities, on the banking activities themselves and on the presentation of accounts. It also stipulates that the audits required under banking law should be conducted by private auditors and defines the [Swiss Financial Market Supervisory Authority \(FINMA\)](#) as being responsible for supervising the banks.

Banknote monopoly

The Swiss Federal Parliament, under article 1 of the National Bank Act of 1905, stipulates that the Swiss National Bank (SNB) has the exclusive right to issue banknotes. On 20 June 1907, the day it took up business, the SNB issued its first banknotes ([interim notes](#)). Currently, the banknote monopoly is embodied in article 4 of the National Bank Act.

Banknote series

A banknote series (or issue) consists of the different [denominations](#), all of which are developed, designed and produced at the same time. Up until now, there have been eight [banknote series](#) in Switzerland. The notes of the first series were put into circulation in 1907 and were considered [interim notes](#). Not all notes of the eight banknote series were actually in circulation. The 4th and 7th series are considered [reserve series](#).

Basel II, Basel III

[Basel capital adequacy framework](#)

Basel capital adequacy framework

Issued by the [Basel Committee on Banking Supervision](#), the Basel capital adequacy framework aims to increase the stability of the international financial system and put banks on an equal competitive footing. The original Basel Capital Accord, published in 1988, focused on the provision of minimum cover for credit risks. A revised framework ("Basel II") was issued in 2004, and was aimed, in the first instance, at making the capital adequacy rules more sensitive to risk. This first "pillar" on minimum capital requirements was supplemented by two other pillars relating to the supervisory review process and the effective use of market discipline. A further revision released in 2010 – "Basel III" – came in response to the global financial crisis which began in 2007. In addition to stricter and countercyclical capital requirements, Basel III also proposes a global minimum liquidity standard.

Basel Committee on Banking Supervision

The Basel Committee was founded in 1974 by the [Bank for International Settlements \(BIS\)](#) as a response to the collapse of Bank Herstatt, which was brought about by currency speculation. The Committee is made up of representatives of the [central banks](#) and banking supervisory authorities from 27 countries. Switzerland is represented by the [Swiss Financial Market Supervisory Authority \(FINMA\)](#) and the Swiss National Bank. The Basel Committee's main objectives are to promote the exchange of information between national supervisory authorities, to enhance supervisory techniques and to issue recommendations for regulatory minimum standards. The decisions and recommendations of the Basel Committee are highly regarded worldwide. They are not binding, however, as the Committee does not exercise a supranational banking supervisory function. A particularly important set of recommendations is the [Basel capital adequacy framework](#).

Big banks

In terms of total assets, earnings and personnel numbers, the big banks constitute the biggest [group of banks](#) in Switzerland. These are universal banks offering a full range of banking services both in Switzerland and also – unlike most of the other groups – abroad. In addition to lending, the big banks play a key role in interbank business, asset management and derivatives transactions.

Board of Governors

The Board of Governors is the highest body of the [International Monetary Fund \(IMF\)](#). It delegated a large part of its executive authority to the [Executive Board](#).

Bretton Woods institutions

In the summer of 1944, representatives from 45 nations met in Bretton Woods, a small town in the US state of New Hampshire, for the United Nations Monetary and Financial Conference. The Bretton Woods conference led to the foundation of the [International Monetary Fund \(IMF\)](#) and the [World Bank](#) in 1945. The Bretton Woods institutions are specialised agencies of the UN and their relationship is governed by an agreement approved by the General Assembly.

C

Cantonal banks

The key characteristic of a cantonal bank is that the canton holds more than one third of its share capital and of the votes. Most of the cantonal banks are now universal banks at which savings and mortgages account for a high proportion of business. The canton may assume liability for their debts, either in full or in part.

Capital market

Like the [money market](#), the capital market is a market for borrowing and investing medium- to long-term funds. As a rule, medium-term capital is committed for a period of one to four years, long-term capital for five years or more. A distinction has to be made between the bond market or long-term debt market, in which fixed-interest debt certificates (bonds) are issued and traded, and the share market for dividend paper (shares).

Capital transfer account (balance of payments)

The capital transfer account forms part of the [balance of payments](#). Capital transfers constitute counterentries for financial flows that are not matched by any form of economic return. The Swiss balance of payments, for example, includes debt remission to developing countries and capital transfers relating to development aid and the global agreement between banks in its capital transfer account.

Cash-handling companies

Cash-handling companies are private firms that take care of banknote sorting on behalf of third parties (banks, Swiss Post, businesses). These companies subsequently hand over excess or damaged banknotes to the Swiss National Bank.

Central Bank

The central bank (note-issuing bank) is the monetary authority of a country. The main tasks of the Swiss National Bank (SNB) include conducting [monetary policy](#) and facilitating payment transactions ([SIC](#)). The central bank has the sole right to issue banknotes (note-issuing privilege).

Clearing/Clearance

The process of transmitting, reconciling and, in some cases, confirming payment orders or security transfer instructions prior to settlement, possibly including the netting of instructions and the establishment of final positions for settlement.

Commercial banks and stock exchange banks

Most commercial banks are universal (full-service) banks. Their field of business includes commercial loans for trading, industrial and commercial companies as well as mortgage loans. Stock exchange banks specialise in stock exchange, securities and asset management activities.

Constituency

Together with Azerbaijan, Kazakhstan, the Kyrgyz Republic, Poland, Serbia, Tajikistan and Turkmenistan, Switzerland constitutes one constituency in the [Executive Board](#) of the [International Monetary Fund \(IMF\)](#).

Consumer price index (CPI)

The consumer price index (user price index, national consumer price index) measures the price of a basket of goods (commodities and services) which is assumed to represent the average consumption habits of private households. The consumer price index is thus a yardstick for the cost development of the goods consumed ([price level](#)).

Current account

The current account is part of the [balance of payments](#). It covers the exchange of goods and services with other countries, cross-border labour and investment income and current transfers. Current transfers are entered in the balance of payments for the provision of goods and services without an economic quid pro quo. In contrast, capital transfers are entered in the balance of payments for the provision of financial assets without an economic quid pro quo. The current account is also designated as the "real section of the balance of payments" (in contrast to the financial section in the [financial account](#)).

D

Data carrier exchange (DTA)

The data carrier exchange (DTA) is a system for the electronic settlement of payment orders by means of credit transfer; the transaction is initiated by the payer. Up to the end of 2005, the payer created a payment order and submitted the data carrier (tape, cassette, diskette) directly or via its bank to the data processing centre run by Telekurs (now part of [SIX Group](#)). The data processing centre then aggregated the payment orders for each bank and sent them to [SIC](#) for settlement. In [SIC](#), the account of the payer's bank was debited and the account of the payee's bank credited. At the end of 2005, the Telekurs data processing centre shut down its DTA operation. Now, DTA payments are either submitted directly via the banks' e-banking interface or through SIX Interbank Clearing Ltd's central submission channel, payROUTE. Payments are settled in [SIC](#) individually as customer payments, rather than in aggregated form as previously.

Deflation

Deflation is the opposite of [inflation](#) and denotes a continued decline in the general [price level](#) over several periods. The deflation rate measures the percentage decrease of the price index. Similar to inflation, deflation leads to a rise in the purchasing power of money. ([Disinflation](#))

Delivery versus payment

A link between a securities transfer system and a funds transfer system that ensures that delivery occurs if, and only if, payment occurs.

Denomination

A banknote series consists of different denominations, each of which has a different nominal value. The current banknote series consists of six denominations of 10, 20, 50, 100, 200 and 1000 franc notes ([The current banknote series](#)).

Direct debiting

System for the electronic voucherless processing of payment orders by means of debiting orders in which the issuer of the invoice sets off the payment (debit transfer). A requirement for direct debiting, on the one hand, is the authorisation of the account holder and, on the other hand, the fulfilment of contractual obligations by the recipient of the payment.

Discount rate

The discount rate is the rate laid down by the National Bank in [discounting](#) and applied as interim discount rate. Currently, due to the declining significance of discounting business, the National Bank no longer fixes a discount rate.

Discounting

The National Bank may provide discount credits by buying securities before they mature. It deducts an interim interest charge ([discount rate](#)) for the residual maturity. The discounted securities are held in the National Bank's portfolio until maturity and are then presented for payment. Discounting has lost its practical significance in recent years. The National Bank is not obliged to grant discount credits. It retains the right to discount securities in special circumstances in which it is willing to extend credit to the banks on a broad basis.

Disinflation

Disinflation designates a decline in [inflation](#), but not a fall of the price level ([deflation](#)). A disinflation policy aims at reducing the inflation rate in an economy. ([sacrifice ratio](#))

E

EFTPOS (Electronic funds transfer at the point of sale)

Refers to the use of payment cards at a retail location (point of sale) where the payment information is captured by electronic terminals and transmitted to the corresponding banks.

Electronic money, e-money

Monetary value stored electronically on a device such as a chip card or a PC hard drive.

euroSIC

euroSIC is a [real-time gross settlement system](#) (RTGS) with a queuing mechanism, and is used for euro payment transactions between Swiss financial institutions. euroSIC, which is essentially a copy of the Swiss franc SIC system, settles through the accounts of [SECB Swiss Euro Clearing Bank](#). euroSIC is operated by SIX Interbank Clearing Ltd. By virtue of SECB Swiss Euro Clearing Bank's access to [TARGET2](#), euroSIC also facilitates the settlement of cross-border transactions in euros. Moreover, euroSIC is linked to the Swiss stock exchange (SIX Swiss Exchange) and the SECOM securities settlement system.

Exchange rate

The exchange rate denotes the exchange relation between two currencies. It is expressed as the price of a currency in units of another currency. If the price of a foreign currency unit is expressed in the domestic currency, this is called a quotation (e.g. 1.40 CHF per USD); if, however, the price of a domestic currency unit is expressed in foreign currency, this is known as an indirect quotation (e.g. 0.71 USD per CHF). In Switzerland it is usual to talk about a quotation. ([monetary value](#))

Executive Board

The Executive Board is the [International Monetary Fund's \(IMF\)](#) highest executive body. It consists of 24 members. The Swiss-led [voting group](#) is represented by its Swiss Executive Director.

External value of money

[Monetary value](#)

Extraordinary liquidity assistance

In accordance with art. 5 para. 2 (a) and art. 9 para. 1 (e) of the National Bank Act, the Swiss National Bank (SNB) also acts as lender of last resort. In this function, it can provide extraordinary [liquidity](#) assistance for domestic banks if they are no longer able to refinance their operations on the market. Extraordinary liquidity assistance can only be provided if the bank or group of banks requiring credit is (i) of [systemic importance](#) and (ii) [solvent](#) and if (iii) the liquidity assistance is covered by [sufficient collateral](#).

F

Federal bond

A federal bond is a fixed-interest debt certificate (bond issue) of the Swiss Confederation employed by the Confederation for medium-and long-term borrowing in the [capital market](#).

Federal Mint

[swissmint](#)

Finality (payments)

Settlements in payment systems which are both irrevocable and unconditional are designated as final.

Financial account

The financial account forms part of the [balance of payments](#). It records the origin and settlement of cross-border financial claims and liabilities. Depending on the investment motive, a distinction is made between direct investment, portfolio investment and other investments (mainly bank loans).

Foreign banks

Foreign banks are foreign-controlled banks and the branches of foreign banks. Foreign-controlled banks are defined as banks under Swiss law, where the main shareholder is non-Swiss or where a foreign shareholder has a controlling interest in the bank. Branches of foreign banks, meanwhile, are bank branch offices that are legally dependent on their foreign "parent companies". All members of this mixed group of foreign banks have two features in common: most of their clients are situated abroad and these banks are all engaged in international banking operations.

Foreign exchange

Foreign exchange comprises financial claims denominated in foreign currency and payable abroad. Examples are foreign sight and time deposits and cheques denominated in foreign currency.

Foreign exchange swap

A foreign exchange swap is a combination of a spot transaction and a forward transaction in [foreign exchange](#). In case of a liquidity swap, the National Bank acquires foreign exchange from commercial banks against Swiss francs for a limited period. At the end of the period the transaction is reversed at a rate agreed upon in advance. In case of a mopping-up swap, the SNB in the same way temporarily buys Swiss francs against foreign exchange. Swap transactions are very flexibly manageable with regard to maturities and rates. The National Bank normally selects maturities of between one week and six months.

G

General Arrangements to Borrow (GAB)

In an exceptional crisis and in the event of a shortage of funds, the General Arrangements to Borrow (GAB) permit the [International Monetary Fund \(IMF\)](#) to borrow funds in the amount of [SDR 17 billion](#) from the [Group of Ten \(G10\)](#) countries according to a distribution key agreed upon in advance. However, the GAB can only be activated if agreement has not been reached under the [New Arrangements to Borrow \(NAB\)](#). The IMF must be able to provide evidence for liquidity shortage and threats to the stability of the international monetary system. The National Bank is a participating institution in the GAB. Since 1997, the GAB have been supplemented by the NAB.

Gross settlement system / RTGS (real-time gross settlement)

A gross settlement system is a payment system in which money transfers are processed individually and sequentially without netting claims. In real-time settlement systems, payments are processed and settled continuously during the day. With this procedure so-called intraday finality ([finality](#)) within payment systems is achieved.

Group of Ten (G10)

The Group of Ten (G10) is an association of industrial countries that have been providing additional funds to the [International Monetary Fund \(IMF\)](#) in exceptional circumstances and in the event of a shortage of funds under the terms of the [General Arrangements to Borrow \(GAB\)](#) since 1962. The original members of the G10 are Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, the United Kingdom, and the United States. Switzerland became an associated member in 1964 and a full member in 1983. The name G10, however, was retained. Up to 2007, the Group of Ten was also a forum for discussions on economic and monetary policy issues between representatives of central banks and finance ministries.

Groups of banks

For statistical purposes, the various banks are assigned to groups according to specific criteria (nature of business, institutional structure, geographical scope of business, size of total assets). The groups are defined by the Swiss National Bank, which keeps the relevant statistics. The Swiss banking system consists of the following groups: [big banks](#), [cantonal banks](#), [regional banks and savings banks](#), [Raiffeisen banks](#), other banks (including, in particular, [commercial banks and stock exchange banks](#), as well as [foreign-controlled banks](#)), [branches of foreign banks](#) and [private banks](#).

Guidelines on monetary policy instruments

The [Guidelines of the Swiss National Bank \(SNB\) on monetary policy instruments](#) describe the use of monetary policy instruments. The Guidelines, which have been prepared as a corollary to the [monetary policy concept](#) already defined by the National Bank, describe the instruments and procedures used for implementing [monetary policy](#). They set out in detail the transactions described in art. 9, para. 1 of the National Bank Act that are at the SNB's disposal for performing the monetary policy tasks assigned to it. In particular, they specify the terms on which the National Bank concludes transactions and the procedures that are to be observed in such cases. Further, they specify what security is eligible for monetary policy transactions with the SNB.

H

Hyperinflation

The term hyperinflation designates extremely high [inflation](#). If the monthly inflation rate exceeds 50 percent, this is generally referred to as hyperinflation. This is equivalent to an annual inflation rate of 12 875 percent.

I

Important monetary policy data

On the first business day of each week, the National Bank publishes data of the previous week that are relevant for monetary policy. The data provide information on the implementation of [monetary policy](#) and include those assets and liabilities that reflect monetary policy measures. In addition, the daily results of monetary policy transactions of the previous week (business volume and reference interest rates) will be provided.

Inflation

Inflation is a rise in the general [price level](#) extending over several periods. An inflationary process is accompanied by a loss of purchasing power of money. Price changes for individual goods (commodities and services) or categories of goods which reflect changed supply and demand relations in functioning markets are, however, not to be equated with inflation. Inflation is measured by means of a price index ([consumer price index](#)). The inflation rate measures the percentage increase in the price index. ([deflation](#), [disinflation](#)).

Interest rate (nominal)

The interest rate is the return for making a sum of money available for a certain period. It is owed by the debtor to the creditor. The interest rate is expressed as a percentage of the sum made available (interest rate) and usually refers to a time period of one year. The interest rate evolves according to supply and demand in the [money](#) and [capital markets](#). Its level, moreover, is influenced by the duration for which the money is made available and the financial standing (creditworthiness and solvency) of the debtor ([interest rate structure](#)).

Interest rate (real)

An adjustment of the nominal interest rate ([interest rate \[nominal\]](#)) for the loss of purchasing power due to [inflation](#) leads to the real interest rate. It is thus calculated as the difference between the nominal interest rate and the inflation rate. In other words, the real interest rate signifies the yield on investments adjusted for inflation or the borrowing costs adjusted for inflation respectively.

Interest rate structure

In the [money](#) and [capital markets](#), investments with varying maturities (terms) exhibit varying interest rates ([interest rate](#)). The relation - in terms of time - between the individual interest rates is defined as interest rate structure or term structure of interest rates. Very often the interest rate structure is expressed as the difference between a long-term interest rate (e.g. the interest rate on a [federal government bond](#)) and a short-term interest rate (e.g. the three-month Eurofranc rate). The interest rate structure is referred to as normal if the difference is positive, i.e. if the long-term interest rate exceeds the short-term rate. In the opposite case, the interest rate structure is described as inverse. In the case of equal long- and short-term rates, the interest rate structure is flat.

Interim notes

The first banknotes, which the National Bank issued in 1907, were largely patterned after the notes of former issuing banks (cantonal banks). During a transition period of three years, these so-called interim notes continued to be in circulation alongside the older banknotes. From 20 June 1910 onwards, only the banknotes issued by the National Bank were legal tender. In September 1911, it issued its first independently developed banknotes ([All banknote series](#)).

Internal value of money

[Monetary value](#)

International Monetary and Financial Committee (IMFC)

The International Monetary and Financial Committee, together with the Development Committee, advises and monitors the [International Monetary Fund \(IMF\)](#). It holds half-yearly meetings.

International Monetary Fund (IMF)

The IMF is one of the two [Bretton Woods institutions](#). It was established in 1945 to promote stable monetary conditions – and, by facilitating balanced growth of international trade – enhance the prosperity of its members. Today, practically all of the world's sovereign states are members of the IMF. The main task of the IMF is the surveillance of the economic policies of its member countries within the framework of the [article IV consultations](#). In addition, the IMF extends credits and loans to countries with balance-of-payments problems. Within the framework of the [Poverty Reduction and Growth Facility \(PRGF\)](#), the IMF supports low-income countries in exceptional crises. In addition to obtaining financing via [quotas](#), the IMF can borrow funds under the terms of the [General Arrangements to Borrow \(GAB\)](#) and the [New Arrangements to Borrow \(NAB\)](#). The IMF also provides technical assistance.

International reserves

[Net foreign holdings of the National Bank](#)

Intraday credit

Credits with a maturity of less than a business day. Such credits are granted in order to facilitate the smooth processing of payments in payment systems. Intraday credits are usually provided interest-free by central banks.

Investment Policy Guidelines

The [Investment Policy Guidelines of the Swiss National Bank \(SNB\)](#) detail the transactions described in art. 9, para. 1 of the National Bank Act which the SNB may enter into in order to perform its investment policy tasks and define the scope of the SNB's investment policy. In addition to investment policy principles and details on the investment instruments, the Guidelines also lay down specifications for the investment and risk control process.

Issue

[Banknote series](#)

L

Large-value or wholesale funds transfer system

A funds transfer system through which large-value and high-priority funds transfers are made between participants in the system for their own account or on behalf of their customers. Although, as a rule, no minimum value is set for the payments they carry, the average size of payments passed through such systems is usually relatively large.

Libor

The Libor (London Interbank Offered Rate) refers to the interest rate for unsecured money market loans to prime banks. Each bank business day, specific banks report to the British Bankers' Association (BBA) the interest rate at which they would be able to borrow unsecured funds of a reasonable market size on the London interbank market shortly prior to 11 a.m. The relevant top and bottom-quartile interest rates are disregarded when fixing the Libor. An average is calculated on the basis of the remaining interest rates, and the figure obtained in this manner is fixed and published as the Libor for the day in question. Libor rates are fixed in different currencies and with varying maturities.

Liquidity

Liquidity is defined as the ability to meet all liabilities that fall due, at any time and without restrictions. Accordingly, a bank or group of banks is referred to as illiquid if it does not hold sufficient liquid assets to be able to meet all its short-term liabilities. A bank can be [solvent](#) in spite of being illiquid: In this case, it does have sufficient assets to cover all debts and is not over-indebted; however, it might not be able to meet all short-term liabilities.

M

Minimum exchange rate

On 6 September 2011, the Swiss National Bank (SNB) set a minimum exchange rate of CHF 1.20 per euro, meaning that the SNB will not allow the [exchange rate](#) to fall below this level. The SNB will continue to enforce the minimum rate with the utmost determination and is prepared to buy foreign currency in unlimited quantities. This measure aims to contain the acute threat to the economy and the associated risk of deflationary developments ([deflation](#)) originating from the massive overvaluation of the Swiss franc. A minimum exchange rate is not to be confused with a pegging of the Swiss franc to another currency.

Minimum reserves

In order to facilitate the smooth functioning of the money market, the banks shall keep minimum reserves. Minimum reserves shall consist of Swiss franc denominated coins, banknotes and [sight deposits](#) which the banks hold with the National Bank.

Monetary Assistance Act

The Federal Act on International Monetary Assistance has been in force since the beginning of October 2004. It enables Switzerland to participate in the provision of financial assistance to prevent or remedy serious disruptions in the international monetary system (systemic aid), as well as to participate in special funds of the [International Monetary Fund \(IMF\)](#), especially the financing of loans to low-income countries at concessional interest rates, and to grant loans to countries with which Switzerland has especially close ties. The Federal Council may commission the National Bank to finance loans for systemic aid, with the Confederation guaranteeing repayment. It may also mandate the National Bank – with its approval – to assume responsibility for the participation in the special funds of the IMF, with the repayment of the loan also guaranteed by the Confederation. Short-term or medium-term loans granted to individual countries that cooperate closely with Switzerland will be financed by the Confederation. The Federal Decree on International Monetary Assistance provides a credit ceiling of CHF 2.5 billion for the financing of guarantees and loans within the context of bilateral and multilateral monetary relations.

Monetary base

The monetary base corresponds to the sum of [notes in circulation](#) and giro account balances of domestic commercial banks at the National Bank.

Monetary policy

Monetary policy is the [central bank's](#) use of monetary policy instruments to achieve economic policy goals. Monetary policy thus constitutes a part of economic policy. The monetary policy of the Swiss National Bank aims at creating the possibility for the economy to exploit its production capacity without jeopardising price stability in the medium term. Its instruments include notably [open market operations](#) ([repo transactions](#), [foreign exchange swaps](#), the purchase and sale of [foreign exchange](#) and securities) as well as Lombard business.

Monetary sovereignty

Switzerland's monetary sovereignty comprises the coinage prerogative ([swissmint](#)) and the [banknote monopoly](#). The monetary sovereignty entitles its holder, the Swiss Confederation, to pass statutes on the banknote and coinage system (i.e. determine the currency unit, designate the authority responsible for issuing the money, determine the [denominations](#), etc.).

Monetary stability

The term monetary stability has two dimensions: in the domestic economy, monetary stability is usually equated with price level stability and implies a constant level of domestic purchasing power of money ([monetary value](#)). In the external dimension, by contrast, monetary stability implies the stability of the nominal [exchange rate](#) ([monetary value](#)).

Monetary value

Monetary value is the purchasing power of money and expresses the volume of goods that can be bought for a monetary unit. A distinction may be made between the internal and the external value of money. The internal value corresponds to the reverse value of the [price level](#). When the price level rises, the volume of goods that can be purchased for a monetary unit decreases and vice versa. Consequently, the price level and the purchasing power of money always exhibit contrary development. The external value of money is the amount of foreign currency that can be bought for a domestic monetary unit. The external value corresponds to the [exchange rate](#) in the indirect quotation.

Money market

The money market is the market for borrowing and investing short-term funds. Short-term funds are mostly considered to be funds made available for a period of up to one year. Aside from the central bank and commercial banks, which mutually provide each other with base money, public and private nonbanks also have recourse to the money market ([capital market](#)).

Money market debt register claims

Money market debt register claims (MMDRCs) are a money market instrument with which the Swiss Confederation and local public authorities raise short-term funds. Money market debt register claims were first issued by the Confederation in 1979 and have since become well-established in the Swiss [money market](#). As a rule, maturities range from three to twelve months. Interest on MMDRCs is paid on a discount basis, i.e. the debt register claims are issued below par and repaid at nominal value.

Money stock M0

The money stock M0 is the money supply of the central bank, also referred to as the [monetary base](#), or occasionally as the cash base.

Money stock M1

The money stock M1 comprises currency in circulation in the form of Swiss francs (banknotes and coins) held by the public plus sight deposits in Swiss francs held by the resident public at banks and the post office as well as transaction deposits.

Money stock M2

The monetary aggregate M2 is defined as the sum of the money stock M1 and savings deposits. Excluded from savings deposits are pension fund monies invested in schemes with restricted terms and tax benefits within the framework of the mandatory occupational pension scheme (pillar 2) and the voluntary, individual pension scheme (pillar 3).

Money stock M3

The money stock M3 comprises the money stock M2 plus time deposits.

N

Net foreign holdings of the National Bank (balance of payments)

The net foreign holdings of the National Bank form part of the [balance of payments](#). This item shows the changes in foreign assets and liabilities of the National Bank. Foreign assets include gold holdings, foreign exchange balances, the reserve position in the International Monetary Fund and international payment instruments. Other than in the financial account, the changes in the holdings are recorded in this item, rather than the transactions. Changes not resulting from transactions are offset in a separate item showing the valuation changes on the Bank's holdings.

Net settlement system

A settlement system in which final settlement of transfer instructions occurs on a net basis at one or more discrete, prespecified times during the processing day. A participant's net position is computed based on the sum of payments received minus payments effected.

Netting

An agreed offsetting of positions or obligations by counterparties or system participants. The netting reduces a large number of individual positions or obligations to a smaller number of positions or obligations.

New Arrangements to Borrow (NAB)

The New Arrangements to Borrow (NAB) form a financial safety net for the [International Monetary Fund \(IMF\)](#). In addition to its regular resources, the IMF can be provided with up to SDR 370 billion by means of NAB. NAB are activated for a specified period (6 months at most) and a specified amount. The amount activated is based on an estimate by the IMF of the expected contingent liabilities. There are now 40 member countries and institutions participating in the NAB. The SNB is the institution representing Switzerland in the NAB.

Nominal interest rate

[Interest rate \(nominal\)](#)

Notes in circulation

The sum total of all the banknotes issued by the SNB is known as notes in circulation. These, together with the sight accounts of domestic banks at the SNB, make up the [monetary base](#). Notes in circulation represent a liability of the central bank vis-à-vis the public and are thus shown on the liabilities side of the central bank's balance sheet.

Note-issuing bank

[Central bank](#)

O

Open market operations

An open market operation is the purchase or sale of securities and other claims in the [money](#) and [capital markets](#) by the central bank. The National Bank conducts open market operations primarily for steering the monetary base. Open market operations of practical significance for the SNB are repo transactions, foreign exchange swaps and to a lesser extent securities business.

P

Payment versus payment

A mechanism in a foreign exchange settlement system which ensures that a final transfer of one currency occurs if, and only if, a final transfer of the other currency takes place simultaneously.

Price level

The price level is the weighted average of various output prices in an economy. The price level thus measures the price of a defined basket of goods which is a cross-section of the goods produced or consumed in an economy (commodities and services). A stable price level does not necessarily imply stable unit prices: price rises for individual goods may be compensated by price reductions for other goods so that overall the price level remains constant. A rise in the price level implies a decline in the [purchasing power of money](#): on average, a monetary unit will buy a smaller number of commodity units. Consequently, the price level and [monetary value](#) always exhibit opposite development.

Poverty Reduction and Growth Trust Fund (PRGT)

The [International Monetary Fund's](#) PRGT provides loans to low-income member countries at preferential terms. The PRGT is financed through bilateral contributions and through the IMF's own resources. The National Bank finances the Swiss contribution to the PRGT capital. The Confederation guarantees the National Bank the timely repayment of the loans, including interest; it also finances the interest rate subsidies.

Private bankers

Private bankers operate primarily in the field of asset management. Private bankers who do not actively seek deposits may waive the statutory transfers to reserve funds, since the partners are jointly and severally liable. In addition, they are not required to publish either annual or interim financial statements.

Purchasing power of money

[Monetary value](#)

Purchasing power parity

Purchasing power parity is said to exist when the [exchange rate](#) is fixed in such a way that, given certain [price levels](#) in any two countries, the purchasing power of both the domestic and foreign currency is the same. Purchasing power parity thus means nothing more than the "law of uniform prices", which serves to explain the [exchange rate](#).

Q

Quota

Each member country of the [International Monetary Fund \(IMF\)](#) holds a capital subscription, expressed in [Special Drawing Rights \(SDRs\)](#). In determining a member country's quota, the IMF considers various economic criteria of a country (GDP, current account receipts and payments and their variability, currency reserves). Quotas are the primary source of IMF funds. They determine the maximum loan amount a country can normally obtain from the IMF. Furthermore, the quota defines a member country's voting power in the IMF and determines the allocation when new Special Drawing Rights are distributed. The IMF must conduct a general review of quotas in intervals of five years at most and make any necessary changes.

R

Raiffeisen banks

The Raiffeisen banks are small regional banks operating as legally autonomous entities. They pool local savings which they then lend to borrowers within the same region. Organised as a cooperative, they are supported and monitored by a service centre operated by a central association, the Schweizer Verband der Raiffeisenbanken. This association guarantees all of its member banks' debts, while these banks in turn are liable for the association's debts.

Real interest rate

[Interest rate \(real\)](#)

Real-time gross settlement system (RTGS system)

A real-time gross settlement system settles funds or securities transfers individually on an order-by-order basis (without netting) and continuously (in real time) throughout the processing day. This settlement method achieves intraday finality ([finality](#)).

Recall of banknotes

In accordance with the law, the National Bank may recall the current banknote series as per a certain date in order to replace it with a new banknote series ([All banknote series of the SNB](#)).

Recalled banknotes

As of the date of recall, the recalled banknotes cease to be legal tender. However, the National Bank is obliged to exchange the recalled banknotes at their nominal value for another 20 years ([All banknote series of the SNB](#)).

Regional banks and savings banks

Regional banks and savings banks conduct the bulk of their business in the savings and mortgages field. Their operations are thus very similar to those of the smaller [cantonal banks](#), though as a rule their geographical scope is smaller. Most of the regional banks are affiliated to the Association of Swiss Regional Banks (RBA-Holding), an umbrella organisation that provides services on their behalf. However, the banks affiliated to this holding company continue to act as independent entities.

Repo transactions

A repo (repurchase agreement) is a securities repurchase agreement. In a repo the cash taker sells securities to the cash provider with the simultaneous agreement to repurchase securities of the same type and quantity at a later date. The interest rate applied in a repo transaction is called a repo rate. The repo rate is owed for the amount loaned and is generally lower than the interest rate for unsecured money market loans.

The National Bank uses this instrument for the steering of liquidity. It is in principle willing, until further notice, to purchase any securities from the «[CHF GC Basket](#)», the «[Euro GC Basket](#)» and the «[German Jumbo Pfandbriefe GC Basket](#)».

Reserve position

The reserve position in the [International Monetary Fund \(IMF\)](#) corresponds to the portion of the [quota](#) paid in. It can be likened to a currency reserve position which may be used as such by the National Bank at any time.

Reserve series

Reserve series are [banknote series](#) that have never been put into circulation. In Switzerland, the 4th and 7th series are considered reserve series. These series would have been used in the event of a large number of counterfeits circulating among the banknotes in circulation. In this case, the National would have replaced the counterfeit [denomination](#) or series.

Retail funds transfer system

A funds transfer system which handles a large volume of payments of relatively low value in such forms as credit transfers, direct debits ([direct debiting](#)), ATM and [EFTPOS](#) transactions.

S

Sacrifice ratio

The sacrifice ratio is the relation between production or income losses suffered during a period of [disinflation](#) and the reduction in the inflation rate achieved. It indicates what percentage of the annual gross domestic product must be

"sacrificed" in order to reduce inflation by one percentage point. The sacrifice ratio therefore serves as the yardstick for the cost of disinflation.

Savings banks

[Regional banks and savings banks](#)

SECB Swiss Euro Clearing Bank

SECB is a Frankfurt-based bank set up by Swiss banks to facilitate euro payment transactions within Switzerland, as well as between Switzerland and the EU. SECB, which is subject to German banking supervision, maintains the accounts through which [euroSIC](#) performs settlement, monitors the settlement process and manages the provision of liquidity. euroSIC is operated by SIX Interbank Clearing Ltd. SECB clears [SEPA](#)-eligible payments and has access to European large-value and bulk payment systems ([TARGET2](#), STEP1 and STEP2).

Security features of banknotes

Security features are designed to prevent counterfeits as best as possible. The features are defined in the [security concept](#). The current Swiss banknotes incorporate the following six features that the general public can recognise and verify easily: the moving number, the magic number, the coloured number, the chameleon number, the glittering number and the perforated number. In addition, the banknotes have other security features, such as the security thread.

Security suitcase

Security suitcases are used to transport banknotes and serve as a precautionary measure against theft. If security suitcases are opened improperly, the notes will discolour and thus become unusable. The notes are then taken to the National Bank's Cash Division in Berne, where their authenticity is verified ([The sorting and destruction](#)). Banknotes recognised as genuine are subsequently replaced.

SEPA (Single Euro Payments Area)

A project to harmonise bulk payments in euros; the aim is that payments within SEPA – whose members are the 27 EU countries plus Norway, Iceland, Liechtenstein and Switzerland – should be carried out at the same terms and conditions as those previously applied to domestic payments. SEPA uses three new, standardised payment instruments (SEPA credit transfers, SEPA direct debits and SEPA card payments), which form the basis for the fully automated processing of euro payments.

Settlement

An act that discharges obligations in respect of funds or securities transfers between two or more parties.

SIC (Swiss Interbank Clearing)

SIC (Swiss Interbank Clearing) is an electronic interbank payment system, which has been operated since 1987 on behalf of the Swiss National Bank by SIX Interbank Clearing Ltd, a subsidiary of [SIX Group Ltd](#) and PostFinance. It is a [real-time gross settlement system](#) (RTGS) with a queuing mechanism. Payments are processed individually and sequentially – i.e. on a gross basis – and settled through the participants' [sight deposit accounts](#) at the SNB. More than 340 participants settle their large-value payments, as well as some of their low-value payments, through SIC.

SIX Group

SIX Group provides infrastructure services for domestic and international participants in the Swiss financial marketplace. The company's activities span securities trading, securities services, financial information, and payment and settlement. SIX Group resulted from the merger of SWX Group, SIS Group and [Telekurs Group](#) at the beginning of 2008 and, as an internationally active infrastructure company, represents a key element in the Swiss financial marketplace.

Sight deposits

Sight deposits are non-interest-bearing deposits of domestic commercial banks at the National Bank. The commercial banks' demand for sight deposits emanates from the statutory liquidity regulations and from the need for working balances in interbank cashless payment transactions ([SIC](#)). The National Bank controls the supply of sight deposits by means of its monetary policy instruments, with which it also steers the liquidity of the banking system. The supply of and demand for sight deposits is balanced out in the overnight market.

SNB Bills

From its set of regular monetary policy instruments, the SNB may issue its own debt certificates in Swiss francs and foreign currencies. The debt certificates in Swiss francs (SNB Bills) are used to absorb liquidity, thereby enabling the SNB

to steer sight deposits more flexibly. The debt certificates in US dollars (SNB USD Bills) are used to increase foreign currency reserves and to finance the SNB's loan to the SNB StabFund, the National Bank's special purpose vehicle.

Solvency

A bank or group of banks is solvent if it meets the capital adequacy regulations currently effective. In particular, this condition implies that it has sufficient assets to cover its liabilities. Only if a bank or group of banks is solvent, i.e. holds sufficient regulatory capital, can the Swiss National Bank (SNB) provide [extraordinary liquidity assistance](#). To assess solvency, the SNB obtains an opinion from the [Swiss Financial Market Supervisory Authority \(FINMA\)](#).

Special Drawing Right (SDR)

The Special Drawing Right (SDR) is the unit of account and means of payment for transactions with the [International Monetary Fund \(IMF\)](#). A currency basket whose composition is reviewed every five years determines the value of SDRs. The basket currencies comprise the US dollar, the euro, the Japanese yen and the pound sterling.

Stability of the financial system

The characteristics of a stable financial system are components that fulfil their function and prove resistant to shocks.

Stagflation

Stagflation is the term used to describe an economic situation in which overall production sinks while at the same time the [price level](#) rises. The term stagflation is a combination of (economic) stagnation and [inflation](#).

Stockpiling of banknotes

Banknotes serve not only as a means of payment but also as a store of value. Banknotes that have been stockpiled – sometimes in very large sums – have been temporarily or permanently withdrawn from the money circuit and are thus tied up («piggy bank») ([Banknote circulation](#)).

Sufficient collateral

The Swiss National Bank (SNB) only provides [extraordinary liquidity assistance](#) if the credit is covered by sufficient collateral at all times. The National Bank determines what collateral is sufficient. In particular, less liquid bank assets with high credit ratings, for instance mortgage claims, can serve as collateral.

S.W.I.F.T. Society for Worldwide Interbank Financial Telecommunication

A cooperative organisation created and owned by banks that operates a network which facilitates the exchange of payment and other financial messages between financial institutions (including broker-dealers and securities companies) throughout the world.

Swiss Financial Market Supervisory Authority (FINMA)

In Switzerland, unlike many other countries, an independent executive and supervisory authority of the Federal government, namely the FINMA (formerly Federal Banking Commission FBC), and not the [central bank](#), is responsible for supervising the banks. The role of the FINMA is (1) to guarantee the protection of creditors and depositors, (2) to ensure the proper functioning of the banking and securities markets, (3) to assess compliance with the legal requirements and (4) to issue the necessary directives to implement the legislation. Thus the FINMA is responsible only for compliance with the operating framework; it does not intervene in the banks' business operations.

swissmint

The 1848 Federal Constitution transferred the right to mint coins from the cantons to the Confederation. In 1855, the Confederation took over the «Berner Münzstätte» (the former mint of the Canton of Berne), which was renamed the Federal Mint and became responsible for supplying the country with the necessary coins. Since 1 January 1998, the Mint has formed an independent unit of the Federal Finance Administration. At the same time, it was given a new name: swissmint (<http://www.swissmint.ch>).

System stability

[Stability of the financial system](#)

Systemic crisis

A systemic crisis is a [systemic event](#) which affects either a few major institutions or a large number of institutions, resulting in impairment of the general functioning of the financial system (or major parts thereof).

Systemic event

A systemic event, in the strict sense of the term, is when problems at a financial institution lead to serious problems at other financial institutions or on a market. In the broader sense, the term «systemic event» also applies to events affecting several financial institutions simultaneously, e.g. a stock market crash in which all banks with an equity exposure suffer losses.

Systemic importance

A bank or group of banks is of systemic importance if its inability to pay would seriously impair the functioning of the Swiss financial system or major parts of it, and have a negative impact on the real economy.

Systemic risk

Systemic risk is the probability of a [systemic event](#) occurring.

T

TARGET (Trans-European Automated Real-time Gross settlement Express Transfer System)

From 1999 to 2007, TARGET provided the link between the national payment systems of the EU; it was replaced by [TARGET 2](#).

TARGET 2 (Trans-European Automated Real-time Gross settlement Express Transfer System)

On 19 November 2007, the EU-wide large-value payment system [TARGET](#) was replaced by the new TARGET 2 shared platform. As a result, 16 national RTGS systems, which had previously been linked via TARGET, ceased to operate. TARGET 2 facilitates the implementation of the European Central Bank's [monetary policy](#), and represents a further step towards a fully harmonised and consolidated payments area as part of European Monetary Union (EMU).

Telekurs Group

A service organisation owned by Swiss banks, its main focus is on financial information, electronic payment media and payment systems ([SIC](#)). In 2008, Telekurs Group merged with SWX Group and SIS Group to form [SIX Group Ltd](#).

Transfers (balance of payments)

Transfers in the [balance of payments](#) designate counterentries for the provision of economic values (goods, services, and financial assets) not offset by a corresponding return. A distinction is made between current transfers in the [current account](#) and [capital transfers](#), which constitute a separate category in the balance of payments.

Two-way arrangement

The National Bank undertakes towards the [International Monetary Fund \(IMF\)](#) to purchase [Special Drawing Rights \(SDRs\)](#) against foreign currencies up to an agreed maximum (SDR 1644 million) or to return the Special Drawing Rights in exchange for currency. The Special Drawing Rights purchased in this way are shown in the National Bank's balance sheet as interest-bearing sight balances in the IMF.

U

Unemployment, natural rate of

The natural rate of unemployment designates the level of unemployment resulting in the long-term overall economic equilibrium and which is compatible with a constant [inflation](#) rate.

Unemployment rate

The number of unemployed persons measured by the number of employed persons.

W

World Bank (International Bank for Reconstruction and Development, IBRD)

The World Bank is one of the two [Bretton Woods institutions](#). Founded in 1945, it is the main agency for channelling development aid funds. It borrows funds in the international money and capital markets. It is the main associated institution of the [World Bank Group](#).

World Bank Group

The World Bank Group's central mission is to promote economic and social progress in poorer countries. Most of the world's sovereign states are members of the World Bank Group. The World Bank Group consists of the [World Bank](#)

(International Bank for Reconstruction and Development), the International Development Agency (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID).

Worthless banknotes

After the statutory conversion period of 20 years, [recalled banknotes](#) become worthless and can no longer be exchanged. The countervalue of the notes that have not been submitted for exchange within this period is transferred to a charitable fund. Worthless banknotes may still have a collector's value, however. The price depends on supply and demand as well as on the condition of the banknotes. Unlike numismatians, antique shops or banks, the SNB does not deal in worthless banknotes ([All banknote series of the SNB](#)).